

Responses to Inquiries  
RFP 08-02  
Russell 1000 & or Active MSCI Emerging Manager

**Active MSCI EM Mandate**

1. For the Active MSCI Emerging Markets search, please elaborate on “Active”. Do you have certain excess return or tracking error targets?
  - Indiana PERF does not have a minimum excess return or maximum tracking error target at this time.
2. Our firm offers a quantitative strategy that targets a 1.25-1.75% excess return over the benchmark with 2% tracking error. Would Indiana PERF be interested in receiving proposals for this type of strategy from our firm?
  - Indiana PERF would consider proposals for managers that primarily rely on quantitative processes for the Emerging Markets Mandate.
3. Is Mercer actively advising on the Emerging Markets search for this RFP? Or are they simply collecting data via their website?
  - As the Plan’s “general” consultant, Mercer is involved in the search and selection process as “an extension of staff”.

**Russell 1000 Fundamental Enhanced Index**

4. Will PERF evaluate quantitatively run products that make use of an optimizer?
  - Indiana PERF is not looking for a manager that primarily uses quantitative analysis to construct its portfolio. Indiana PERF is looking for managers that employ qualitative analysis as the primary source of portfolio construction. These qualitative factors include but are not limited to: company visits, understanding industry trends, researching competitors, evaluating management’s ability to execute, uncovering unrealized potential growth in earnings...etc.
5. Will PERF evaluate products that have back-tested returns only?
  - Since it is extremely difficult to run a back-test on the type of fundamental enhanced portfolio Indiana PERF is looking for, Indiana PERF would not be interested in back-tested results.
6. Please elaborate on the term “Fundamental” in your Russell 1000 Fundamental Enhanced Index search. Are you referring to stock picking strategies? Our firm offers a quantitative, enhanced index strategy that targets a 1-1.5% excess return over the benchmark with 2% tracking error. Would Indiana PERF be interested in receiving proposals for this type of strategy from our firm?
  - See #4 above.
7. We need a precise definition of what the above mentioned RFP is looking for.
  - See #4 above.
8. Is the mandate limited to strategies benched to the Russell 1000 Index?
  - Indiana PERF is specifically looking for a “core” Russell 1000 fundamental enhanced index manager, however if your product provides a viable alpha proposition as a fundamental enhanced index manager with another large cap benchmark, PERF will review the product.
9. Our firm manages an ERISA-qualified commingled vehicle within the Enhanced Index space benchmarked to the S&P 500. Would this commingled vehicle, relative to the S&P 500 Index, be an acceptable product to respond to the Enhanced Index mandate?
  - See #8.

10. Can you provide some guidance as to the target level of out performance sought for an enhanced manager as well as the target tracking error?
  - This will be finalized upon award of the contract.
11. Would you accept a Large Cap Core strategy that has a composite currently benchmarked to the S&P 500 Index at a 3-4% tracking error?
  - See #8.
12. Is the goal to select an enhanced index strategy that is benchmarked against the Russell 1000?
  - See #8.
13. Alternatively, is the goal to select a strategy that provides enhanced returns relative to a stipulated Fundamental Index (such as the FTSE RAFI US 1000?) - or, is the reference to "Fundamental" in the name intended to convey something else all together?
  - See #4 above.
14. What exactly do you mean by "Fundamental Enhanced Index"?
  - See #4 above.
15. We believe we can add value using natural stock price volatility through a "mathematically" based, risk controlled process." Is this an acceptable profile?
  - Indiana PERF is not looking for a manager that primarily uses quantitative analysis to construct its portfolio. Indiana PERF is looking for managers that employ qualitative analysis as the primary source of portfolio construction. These qualitative factors include but are not limited to: company visits, understanding industry trends, researching competitors, evaluating management's ability to execute, uncovering unrealized potential growth in earnings...etc. While it appears that your strategy does not fit the standards outlined above, Indiana PERF will defer to your judgment as to whether your organization believes it is a fit according to these standards.

### General Questions

16. Is it imperative that any changes to the form of Investment Management Agreement be in the form of an amendment? In other words, would it be acceptable to submit a handwritten mark-up of the form?
  - Provide it as an amendment or an alternate would be a red-lined Word version.
17. Is a copy of the RFP available in Word format? If so, please advise how we can obtain a copy.
  - RFP's in Word format can be obtained upon request from [slanman@perf.in.gov](mailto:slanman@perf.in.gov)  
Please make sure you reference the RFP number in the subject line.
18. Does the Indiana Economic Impact Statement and the Taxpayer Identification Number Request (W-9) need to be completed and submitted with our proposal?
  - Yes submit both. If your firm does not have any employees working in Indiana, then most of the Impact Statement including registration with the Indiana employment agencies is not applicable.
19. What is the method used to determine what securities are included in Indiana PERF's Sudan screen?
  - PERF has contracted with RiskMetrics to provide the research and securities that are used in the screen.
20. Is there a list of securities currently restricted by Indiana PERF's Sudan screen?
  - Due to the confidentiality arrangement with RiskMetrics, PERF will provide a list of securities upon execution of the contract. While it is not an identical list, Sudan Task Force, produces a comparable list of securities. This can be obtained through contacting the Sudan Task Force at [INFO@SUDANDIVESTMENT.ORG](mailto:INFO@SUDANDIVESTMENT.ORG) for the

most current version. There are currently 40 companies identified on the divestment list provided by RiskMetrics.

21. What is the frequency of updates to the Indiana PERF Sudan screen list?
  - Indiana PERF will update managers at least annually with the latest list.
22. What is the maximum percentage limit of our strategy that can be invested in securities included on Indiana PERF's Sudan screen?
  - Indiana law requires full divestment of all securities of scrutinized companies identified by RiskMetrics as having active business operations in Sudan by January 1, 2009. For a copy of the bill please see [HEA 1067](#).
23. What is the name of the custodian used by Indiana PERF?
  - Indiana PERF uses JP Morgan Chase as their custodian.
24. Exhibit A, Scope of Work, states that "The mandate will require a Sudan compliance screen, provided by Indiana PERF, under a separate account structure". In Exhibit F, the Questionnaire, Questions 5 and 6 refer to pooled or commingled vehicles. Which type of vehicle is preferred for this mandate?
  - Please review Indiana HEA 1067, specifically section 29 as it applies to the use of commingled vehicles. If the commingled vehicle complies with the statute, Indiana PERF would then evaluate the two vehicle structures.
25. If the investment product in question, though marketed and sold in the US, is managed by our United Kingdom office which is a separate company, would the same MWE/WBE requirements apply?
  - Yes.
26. If the required MWBE service, which as we understand it must be directly related to the contract, is not offered by any of the vendors on Indiana's directory of certified firms, can an investment manager meet the subcontractor commitment through MWBE vendors outside Indiana?
  - Section 30 on page 29 states: "The Investment Manager agrees to comply fully with the provisions of the Investment Manager's MBE/WBE participation plans, if any...". The Investment Manager is not required to have a plan. PERF's goal is to have a combined 7%, of overall business operations, placed with MBE/WBE certified businesses. The website listed in the RFP, [www.buyindiana.in.gov](http://www.buyindiana.in.gov) does include businesses outside of the State of Indiana.
27. Would Indiana PERF provide a list of specific stocks that would be restricted pursuant to the Sudan compliance screen? If not, how would you require this screen to be applied?
  - See # 19 through 24.
28. Is it mandatory to use a MBE/WBE contractor for this mandate?
  - No, it is not mandatory to use a MBE/WBE contractor.
29. Are Sudan screens required for an investment in either a commingled or mutual fund vehicle?
  - See #24.
30. Exhibit B - Sample Investment Management Contract refers to the plan's Investment Policy document. Are we able to obtain a copy of this?
  - Yes, from the web page that the RFP is located or directly at: [http://www.in.gov/perf/pdf/agency/perf\\_investment\\_policy.pdf](http://www.in.gov/perf/pdf/agency/perf_investment_policy.pdf)
31. To what extent would PERF recognize that Investment Managers who are US-registered advisers, but domiciled in non-US jurisdictions such as the United Kingdom, (1) will be subject to employment laws (e.g., nondiscrimination, drug policy) which differ from their corresponding U.S. laws and (2) will need to amend the investment management agreement to include non-U.S. fiduciary contractual requirements?
  - Please note any major differences, so that legal counsel can determine if a significant conflict exists.

32. The proposed contract in the RFP does not include the Investment Policy. Would it be possible to provide this for our review?
- See #30.
33. As a bank, we are exempt from registration under the Investment Advisors Act of 1940. Exhibit D, Qualification 1, states that we must be a RIA regardless of exemption. Does this mean we cannot submit a response? Wouldn't this intentionally limit some extremely qualified emerging market managers? If this is the case, why would this apply to Emerging Markets and Russell 1000 strategies and not the Core Plus strategy under RFP 08-01?

- This is an error. Qualification 1 on Exhibit D should be adjusted as follows:
  1. Maintain the status of a registered investment advisor under the Investment Advisors Act of 1940. ~~regardless of whether any exemption from registration applies.~~

Indiana PERF's investment policy statement specifically addresses this under Section 3:

#### RESPONSIBLE PARTIES AND THEIR DUTIES

"An Investment Manager is a person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (i.e., banks and insurance companies and affiliates)."

As such, your organization is encouraged to submit a response and we apologize for the error.

34. The Contract provides that managers must comply with the Investment Policy. We have reviewed the policy, including the Specific Guidelines for Domestic Equity Portfolio. Will additional Manager Specific Guidelines be included as a part of the contract to further describe the manager's specific investment style?
- Yes.
35. Section 3 of the Investment Management Contract states that our blanket bond and E&O/D&O (fiduciary liability) coverage may not contain a prior acts exclusion. Our E&O/D&O policy does include a prior acts exclusion but is limited to Wrongful Acts committed prior to April 30, 1988 (when we first obtained the policy from the carrier) and only if the Insured at such date knew or could have reasonably foreseen such Wrongful Act was or might be the basis for a claim. Given the length of time that has elapsed, we do not anticipate this exclusion would prohibit any coverage. The fidelity bond does not have a "prior acts" exclusion per se but only covers losses that are sustained by the Insured at any time but are discovered during the Bond Period. We would like to confirm that such terms will be acceptable to PERF.
- Prior acts exclusion for wrongful acts committed prior to April 30, 1988, is permissible. A policy which covers only those wrongful acts discovered during the bond period is unacceptable.
36. The RFP states that a contract goal of 7% utilization of MBE/WBE as subcontractors or vendors/suppliers has been established for state contracts. However, we noted on the Indiana state website that the current goal for professional services is 8%. We would

endeavor to meet this target through the utilization of MBE/WBE broker-dealers as identified by PERF and consistent with our obligation to seek best execution. However, due to our fiduciary duties to seek best execution we cannot pre-commit to the use of any one broker-dealer. However, it appears that the Minority & Women's Business Enterprises RFP Subcontract Letter of Commitment is a required submission, even for vendors and suppliers. Is this accurate? For the reasons indicated above, we would not be able to identify any broker-dealers except for future consideration for the account's transactions (or through step-outs).

- Section 30 on page 29 states: “The Investment Manager agrees to comply fully with the provisions of the Investment Manager’s MBE/WBE participation plans, if any...”. The Investment Manager is not required to have a plan. PERF’s goal is to have a combined 7%, of overall business operations, placed with MBE/WBE certified businesses. The website listed in RFP, [www.buyindiana.in.gov](http://www.buyindiana.in.gov) does include businesses outside of the State of Indiana.
37. We would like to reconfirm that the Sudan Compliance Screen will be provided by Indiana PERF.
- Yes, see also #19
38. Please provide the amount of time the manager is allowed to exit names when added to the screen.
- Indiana law requires full divestment of all securities of scrutinized companies identified by RiskMetrics as having active business operations in Sudan by January 1, 2009. For a copy of the bill please see [HEA 1067](#).
39. Regarding the Investment Policy Statement: Page 5 - Responsibilities of Investment Managers and Consultants "All Investment Managers shall strictly conform to the Board's Code of Ethics." "Any suggestion or offer to deviate from these provisions made by a Board member or Staff member shall be reported by the Investment Manager to all members of the Board." Does the above relate to the solicitation of contributions and support of political candidates only and not that we have to adhere to all of the Indiana Code of Ethics that is referenced in the Investment Policy? Could you please elaborate on this?
- Investment Managers must adhere to all applicable provision of the Indiana Code of Ethics.

Each Investment Manager and Consultant retained by the Fund shall be notified in writing of the Board's Code of Ethics and the related Conflict of Interest laws of the State of Indiana, and of the Board's adoption of this Code. All Investment Managers shall strictly conform to the Board's Code of Ethics. Any suggestion or offer to deviate from these provisions made by a Board member or Staff member shall be reported by the Investment Manager or Consultant, in writing, to all members of the Board.

The Board recognizes that Investment Managers and Consultants have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Investment Managers, Consultants or Staff. Any such incidents should be reported, in writing, by the Investment Manager or Consultant to all members of the Board. This written report should be filed immediately.

All Investment Managers, Consultants and other persons retained in any capacity which have fiduciary responsibilities are expected to abide by the provisions of the Board's Code of Ethics.

40. As far as reporting an incident of solicitation or contribution can this be provided on a quarterly or annual basis?
  - No, see #39.
41. Page 11 details what is to be included in the complete proposal. We are assuming that Exhibit C "Fees" should be part of the proposal. Is this correct? In addition, does Exhibit D "Mandatory Minimum Qualifications" need to be included in the response?
  - Yes.
42. Please confirm that in addition to the PERF MBE/WBE Subcontractor Commitment Form, we also need to complete the Indiana Economic Impact Statement and the Taxpayer Identification Number Request.
  - Yes, complete them if they apply. The firm is not required to have a MBE/WBE commitment and may not have any material Indiana Economic Impact. Please complete the Taxpayer Identification Number Request.
43. Do we need to complete the "Application for Certificate of Authority of a Foreign Corporation"?
  - All corporations incorporated outside of the State of Indiana would need to register prior to contract negotiations. This would not prevent submitting a proposal.
44. Section 3 of the Investment Management Contract requires the Investment Manager to advise the Fund in the event of various occurrences including an examination by the SEC. Investment Advisers are subject to routine examination and sweep examinations that are not related to any alleged wrongdoing and do not affect the Investment Adviser's ability to perform its duties. Is it the intent of the provision to require notice of routine examinations and sweep examinations?
  - No.
45. Section 6 of the Investment Management Contract contains a most favored nation provision. Our experience is that investment management fees are tiered according to client type and that public pension funds receive the lowest fees except for sub-advisory assignments, which constitute a different client relationship. Can this provision be revised to be limited to public pension funds?
  - Please make note of this desire in the RFP response and it will be evaluated as necessary.
46. Section 26 of the Investment Management Contract makes certain IOT standards applicable to the contract. How are the investment management services to be provided under the contract expected to be compliant with the IOT standards?
  - This section generally would not apply, since the investment manager's services have very little, if any, interface with the IOT systems.
47. Page 41 of the RFP states that "the Respondent must provide a description of products and/or services provided that are directly related to this proposal and the cost of direct supplies for this proposal." We would like to confirm whether or not the subcontracting to Minority and Women Owned Businesses applies only to the creation and submission of the completed RFP, or if the requirement is a minimum of 7% of overall business operation, including but not limited to brokerage services. Also, we would like to confirm whether or not we would be required to subcontract with businesses listed on your website or that are located in Indiana (i.e. would a Minority or Women Owned Businesses in California fulfill this requirement).
  - Section 30 on page 29 states: The Investment Manager agrees to comply fully with the provisions of the Investment Manager's MBE/WBE participation plans, if any....



The Investment Manager is not required to have a plan. PERF's goal is to have a combined 7% of overall business operations placed with MBE/WBE certified businesses. The website listed in RFP, [www.buyindiana.in.gov](http://www.buyindiana.in.gov) does include businesses outside of the State of Indiana.

48. Is there a question #4 on page 39 of the RFP? The number sequence goes from #3 to #5.
  - No, that was a mistake.
49. Regarding part 5 of Question #8 - "05. Portfolio fit" - on page 39 of the RFP. Would you be able to provide more detail for this request?
  - Portfolio fit is a broad category that encompasses a qualitative and quantitative assessment by the evaluation team as to how the product will perform in conjunction with the broader portfolio.
50. Could you please provide us with some additional guidance on the completion of the Minority & Women's Business Enterprises RFP Subcontractor Commitment Form? Specifically, we noted in Section 4.3.10 of the RFP reference to a goal of 7%.
  - See #47.
51. If a firm is based outside of Indiana and does not have relationships with the firms named on the Listing of Certified Business Enterprises found on the Indiana Department of Administration website, how do you suggest completing the form?
  - See #47.
52. Is there any more detail you can provide on the Sudan compliance screen mentioned on page 16, Exhibit A, Scope of Work? We would be interested in any information regarding when and how often the screen will be applied, the group responsible for the application, estimates of the goal of the screen regarding expected # of securities excluded, criteria for exclusion, etc?
  - See # 19 through 24.
53. On page 16, Exhibit A, you mention both a separate account, or commingled vehicle. We are able to offer both structures. However, does the Sudan compliance screen allow for a commingled vehicle?
  - See #24.
54. Does Indiana PERF provide special guidance or consideration for out-of-state money management firms and how they should approach the minority business development considerations suggested on page 14, 29, and 41?
  - See #47.
55. Regarding the documents/forms provided at the end of RFP 08-02. Pages 41-47 contain documents provided as pdfs. It is our belief that we only need complete these documents if we are chosen to receive part of either mandate? Is this assumption correct, or are we to complete the documents for inclusion in our submission?
  - Complete the forms as applicable. The Secretary of State registration is applicable to any corporation incorporated outside of the State of Indiana. The Taxpayer Identification Number Request should be completed.
56. If we are to complete these documents as part of our RFP submission, can you lend some guidance as to how we would complete the Minority & Women's Business Enterprises RFP Subcontractor Commitment Form since we're providing investment management services? Would the use of MWBE broker/dealers meet these qualifications?
  - See #47.